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Report Highlights:

Increasing investment and higher efficiency in the Russian pork sector is expected to continue to boost production growth in the medium term. Pork production is forecast to increase by four percent in 2004, to 1.6 MMT. However, beef production is forecast to decline for the 14th straight year as the sector continues to struggle with the lack of investment and inadequate infrastructure. In 2003, the Government of the Russian Federation implemented Tariff Rate Quotas (TRQs) on beef and pork. These protective measures are forecast to cause a decline in beef and pork consumption and reduced trade opportunities in 2004.

Includes PSD Changes: Yes
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Executive Summary

Production of meat in Russia is forecast to remain almost unchanged in 2004. While swine and pork production are forecast to continue to increase solidly, by four percent, cattle numbers and beef production are forecast to fall again in 2004. The introduction of TRQs on beef and pork will cause a decline in consumption of meat in Russia in 2004. Price increases have been minor during the first half of 2003, as the large stocks of meat that arrived prior to the TRQs have provided a solid buffer stock. However, prices are expected to rise in the second half of 2003 and in 2004 as meat stocks are used up.

Production

In the first half of this year, farms of all categories produced 3.1 million tons of livestock and poultry (live weight), a six percent increase over the same period of 2002. Growth occurred in poultry and pork production, while beef production continued to experience significant difficulties and declined for the 14th straight year. The cattle herd is approximately half of the size it was in 1992. Production of meat on small farms maintained its relative production level, accounting for 50 percent or more of production of all meats except poultry.

Swine and Pork Production

The Russian swine herd continues to grow at a brisk pace; forecast to increase by five percent in 2004. Significant investment in the industry has increased production efficiency, capacity, and allowed Russian producers to gain market share. This has helped to increase weight gain efficiency and growth rates. In turn, the efficiency gains have allowed producers to plow more resources back into the production side of the business in terms of increasing and improving feed supplies and infrastructure. In contrast, Post estimates for herd size and pork production in 2003 were decreased from the previous forecast as production gains and herd did not grow as fast as expected.

Slaughter is also forecast to increase in 2004, by three percent, and result in a growth in pork production of three percent. Pork production looks very favorable in the medium term due to the significant investments in the industry and the large remaining excess capacity. Due to high investment costs in terms of construction of new facilities, almost all companies prefer to remodel existing production sites. Industrial production sites still exist from the high point of production in 1991 that have either been abandoned or are at a very low intensity of usage at the current time. These sites are much less expensive than new swine raising facilities and they can also be brought into production much quicker than new buildings.

Investment into the fast growing poultry sector has followed the same path. However, poultry production dropped much further than swine production after the break-up of the Soviet Union. Thus, poultry has been able to grow extremely quickly by using existing facilities and the advantage of quick returns on investment. Pork, on the other hand, did not fall so far and has slightly smaller rates of return on investment. Therefore, investments into swine production were slower to begin and there are fewer idled facilities. At the current rate of investment and consolidation in swine production, the next few years will see tougher competition for idle plants and an even greater focus on improving efficiency to get the most from existing facilities. Table

10 illustrates that there remain some sizable pork operations in Russia and those that reach Western levels of efficiency can reach extremely high profitability.

Cattle and Beef/Veal Production

The number of cattle in Russia is forecast to decrease by five percent in 2004. Beef cattle are forecast to decrease by four percent, while the dairy cattle herd is expected to decrease by six percent. As table 1 indicates, low feed and fodder stocks will force farms to maintain or contract their cattle herds through the winter of 2003. This will also lead to a five percent drop in the 2004 calf crop. In recent years, abundant grain crops have helped farms by increasing feed grain supplies and depressing prices. In contrast to pork, cattle in Russia are generally in pasture in summer and fed with fodder in the winter, which means that the excellent grain harvests in recent years were not enough to propel production. Moreover, the overall grain harvest in Russia is expected to be more limited in 2003/04, thereby leading to higher feed prices and reduced availability to counter the poor fodder year. Generally, this pattern of poor feed or fodder years has led to a vicious cycle in the beef industry that has increased risk and led to falling herd numbers.

The generally poor financial and feed situation going into 2004 will lead to increasing slaughter at low weights. Correspondingly, the lower total slaughter (due to the smaller herd) and the lower slaughter weight will lead to a four percent decrease in beef production.

Table 1: Feed Stocks Of Agricultural Organizations on July 1,2003

	2002	2003	2003 as % of 2002
Planted and natural grasses, mln hectares	3.3	2.3	67.9
Hay	1.9	1.1	61.0
Non-Dried Fodder	3.3	2.3	69.2
Silage	1.2	1.0	83.9
Prepared Feeds			
Total, mln tons feed units	2.1	1.4	67.6
Per single standard animal, tons of feed units	0.16	0.11	68.2

Source: Russian State Statistic Committee

Regional Agricultural Support for Livestock

One increasing trend is the support being provided by regional and local governments to producers. Certain local administrations are beginning to become more business friendly and working to entice new and maintain existing large agricultural enterprises to their regions. This assistance is generally not in the form of direct payments, but rather in the use of local government tools to improve the business climate for local companies. The most common form of assistance is simply taming the infamous Russian bureaucracy. Ironically, protection from the demands of local bureaucrats and assistance in completing formal bankruptcy procedures, land transfers, leasing arrangements, and zoning are considered significant assistance. However, some more wealthy regions are actively assisting companies in terms of loans and working to secure participation in the many, but complicated, government programs designed for agricultural credit and leasing. A few regions, including the city of Moscow and some richer oil producing regions,

are starting to invest in producers that sell to the city (for distribution to social institutions) and subsidize development of breeding and local extension services.

The Moscow government plans to create large agribusiness holdings that will provide a steady supply of food products to City of Moscow. A target program is being created to increase food production in different Russian regions and Belarus during the period 2004-2006. Moscow has invested already about one billion Rubles (\$33 mln) into Penza, Orel, Kursk, Yaroslavl, Tumen and other regions. According to the preliminary plan, Moscow plans to receive 170,000 tons of meat and meat products annually by the end of 2006. More than three billion rubles have been put into development of agricultural production, including one billion rubles in long-term soft loans out of the city budget. It is envisaged that this program will help to significantly reduce the cost of products coming to Moscow, particularly by reducing the number of middlemen. A wholesale network for agricultural products from Russia's regions is planned for Moscow. That would also allow producers to bypass multiple intermediaries.

For the first time in its history, the rich agricultural region of Krasnodar has begun subsidizing its agricultural production. Beginning July 1, 2003, the local government will pay 50-80 kopecks (\$0.016-0.026) per kilo of milk, five rubles (\$0.16) per kilo of beef (live weight more than 450 kilo), and three rubles (\$0.1) per kilo of pork and poultry. One billion rubles (\$33 mln) was allocated to subsidize calves in feed lots and for pedigree animal purchases.

PSD Table

Country Russian Federation	Commodity Animal Numbers, Cattle	(1000 HEAD)					
		2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin							
	Total Cattle Beg. Stks	24510	24510	23500	23500	22350	22345
	Dairy Cows Beg. Stocks	12200	12200	11700	11700	0	11000
	Beef Cows Beg. Stocks	0	0	0	0	0	0
	Production (Calf Crop)	9220	9220	8850	8845	0	8350
	Intra EC Imports	0	0	0	0	0	0
	Other Imports	12	12	14	14	0	15
	TOTAL Imports	12	12	14	14	0	15
	TOTAL SUPPLY	33742	33742	32364	32359	22350	30710
	Intra EC Exports	0	0	0	0	0	0
	Other Exports	4	4	4	4	0	5
	TOTAL Exports	4	4	4	4	0	5
	Cow Slaughter	1800	1800	1700	1700	0	1620
	Calf Slaughter	0	0	0	0	0	0
	Other Slaughter	8050	8050	7960	7960	0	7700
	Total Slaughter	9850	9850	9660	9660	0	9320
	Loss	388	388	350	350	0	250
	Ending Inventories	23500	23500	22350	22345	0	21135
	TOTAL DISTRIBUTION	33742	33742	32364	32359	0	30710

Consumption

The continued growth in real income has helped to maintain increasing demand for meat and meat products. The Russian State Statistics Committee has reported that real household incomes in Russia rose 16 percent year-on-year in the first quarter of 2003. The growth in urban incomes has fueled particularly strong demand among the emergent middle class. However, the regular and steadily increasing incomes of government workers (federal and local) and pensioners has also been a source of significant demand. In turn, meat processors have been increasing capacity through large investments throughout the country.

While sausage and sausage products remain by far the most popular meat product due to its low cost and traditional appeal, other meat products are now gaining in importance. For example, the growth in consumer ready processed products (like the popular and traditional meat filled dumplings) has been greater than ten percent per year for the past several years. Additionally, higher value processed solid meat products (such as smoked hams and loins) are gaining in popularity and accessibility.

Affects of Import Limiting Measures

However, in this rising tide of good news for processors, producers, and importers, the Russian Government has taken action to try to make sure that domestic producers gain a larger share of this growing market. On April 1, TRQs were introduced for imports of fresh beef and pork, on May 1 a quota was introduced on poultry, and on August 1 a TRQ was introduced for chilled beef. These measures are further described in the trade section.

These import limiting measures are forecast to lead to a decrease in the consumption of beef by two percent and pork by one percent. The amount of reduction for beef is greater because producers are currently not in a situation to respond immediately to the domestic price increases due to the serious situation with herd size and the normal delayed response due to the growth and life cycle of beef cattle. However, Ukraine, the largest supplier of beef to Russia, is not included in the quota, which creates an import safety value if supply becomes too low. Pork consumption is only expected to decrease by one percent due to the increase in domestic production and the lesser role that imports play in the pork market. Future consumption will depend on changes to the size of the quota and the rate of domestic production increase.

PSD Table

Country Russian Federation	Commodity Meat, Beef and Veal	(1000 MT CWE)(1000 HEAD)					
		2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004	
Slaughter (Reference)		9850	9850	9660	9660	0	9320
Beginning Stocks		0	0	0	0	0	0
Production		1740	1740	1700	1650	0	1590
Intra EC Imports		0	0	0	0	0	0
Other Imports		730	730	800	700	0	720
TOTAL Imports		730	730	800	700	0	720
TOTAL SUPPLY		2470	2470	2500	2350	0	2310
Intra EC Exports		0	0	0	0	0	0
Other Exports		5	5	5	5	0	5
TOTAL Exports		5	5	5	5	0	5
Human Dom. Consumption		2415	2415	2445	2300	0	2255
Other Use, Losses		50	50	50	45	0	50
TOTAL Dom. Consumption		2465	2465	2495	2345	0	2305
Ending Stocks		0	0	0	0	0	0
TOTAL DISTRIBUTION		2470	2470	2500	2350	0	2310
Calendar Yr. Imp. from U.S.		0	0	0	0	0	0
Calendar Yr. Exp. to U.S.		0	0	0	0	0	0

Trade

Naturally, trade in meat products will become much more constrained due to the introduction of the TRQs. As noted in the policy section, the over-quota tariffs are sufficiently high that very little trade will happen outside of the TRQs. Therefore, there will be quite heavy competition by exporting countries to maintain market share and client relationships.

(Note: Due to the lack of information at the time of this report regarding the intentions of the Russian Government to introduce changes to the system of TRQs in 2004, FAS/Moscow has assumed that the current policy will carry into next year. Thus, the current policy status quo has been taken into account in calculating the 2004 forecast.)

Beef imports are forecast to increase by three percent in 2004, to 720,000 MT. Most of this growth can be accounted for by a slight increase in the exports from Ukraine. Also important is an expected increase the proportion of boneless beef in Ukraine's exports (which increase the carcass weight equivalent of this volume of meat). There is also expected to be some increase in the over-quota imports of high-quality beef. Lastly, there are expected to be attempts by traders to avoid the TRQs. The 2003 forecast was decreased due to the creation of the chilled beef TRQ after the previous report, lower supplies in Ukraine, and a slower than expected price response.

PSD Table

Country Commodity	Russian Federation		(1000 HEAD)			
	Animal Numbers, Swine		2002	2003	Estimate	2004
	USDA Official [Old]	Revised Post Estimate [New]	USDA Official [Old]	Estimate Post Estimate [New]	USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
TOTAL Beginning Stocks	16570	16570	17000	17000	18534	17800
Sow Beginning Stocks	3200	3200	3350	3300	0	3410
Production (Pig Crop)	34200	34200	37000	35300	0	36300
Intra EC Imports	0	0	0	0	0	0
Other Imports	35	35	35	35	0	35
TOTAL Imports	35	35	35	35	0	35
TOTAL SUPPLY	50805	50805	54035	52335	18534	54135
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	0	1
TOTAL Exports	1	1	1	1	0	1
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	29000	29000	32000	30300	0	31300
Total Slaughter	29000	29000	32000	30300	0	31300
Loss	4804	4804	3500	4234	0	4234
Ending Inventories	17000	17000	18534	17800	0	18600
TOTAL DISTRIBUTION	50805	50805	54035	52335	0	54135

Russian pork imports are expected to decrease by 12 percent in 2004 to 530,000 MT. The TRQ will severely limit pork imports and, unlike beef, there is no significant supplier that is outside of the TRQ coverage. Thus, there will be no safety valve for pork supplies other than domestic production. However, domestic production is constrained in responding to excess demand and will not be able to effectively maintain high growth rates and simultaneously increase pork production. Though producing the swine at a higher density could increase production somewhat, current production practices suggest that efficiency would suffer more than the increased meat output. Such an act by producers would disrupt the production cycle and be a damaging supply response in the medium term. Lastly, the 2003 Russian import forecast was decreased by five percent, to 600,000 MT, or 25 percent lower than 2002. Though pork imports prior to the quota were significant, they fell short of Post expectations.

There were significant increases of both beef and pork in the months between the announcement of the TRQs and their implementation. Imports of both meats were high in January and February and doubled in March. Naturally, this high level of imports was much greater than average demand and depressed prices for domestic production and imports. The glut caused by the TRQ announcement is expected to make its way through the system and the price rise associated with decreased supply will be felt during the fall and winter.

While difficult to precisely estimate, the TRQs have clearly slowed both imports and consumption. While their effects are less severe in 2003 due to the increase in imports prior to the quota, in 2004 imports of pork will be approximately 100,000 to 150,000 MT and beef 50,000 MT lower than without the quota. As domestic production is not forecast to grow enough to compensate for that reduction, consumption is held down by roughly that same volume. The price rise that accompanies this trend (along with decreasing import competition) is one of the objectives the Government has in terms of assisting local production. Russian policy makers see this price rise as an implicit subsidy to producers that could not otherwise be made due to budget constraints.

Key Factor: Ukraine

The cattle population in Ukraine shrank 8.5 percent year-on-year to 9.408 million as of July 1, the State Statistics Committee reported. Cattle numbers fell 0.3 percent at households and 17.5 percent at agricultural enterprises. This will have an impact on the level of Ukrainian exports available outside the meat TRQs. Trade contacts report that Ukrainian supplies are not as flexible in increasing exports to Russia because major suppliers already have fixed volume contracts. Additional supplies of quality beef will be less in late 2003 and 2004 due to poor grain crop, lower slaughter weights, and domestic demand.

PSD Table

Country Commodity	Russian Federation		(1000 MT CWE)(1000 HEAD)			
	Meat, Swine				2004	Forecast
	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Slaughter (Reference)	29000	29000	32000	30300	0	31300
Beginning Stocks	0	0	0	0	0	0
Production	1630	1630	1750	1705	0	1760
Intra EC Imports	0	0	0	0	0	0
Other Imports	800	800	630	600	0	530
TOTAL Imports	800	800	630	600	0	530
TOTAL SUPPLY	2430	2430	2380	2305	0	2290
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	0	1
TOTAL Exports	1	1	1	1	0	1
Human Dom. Consumption	2340	2340	2300	2220	0	2205
Other Use, Losses	89	89	79	84	0	84
TOTAL Dom. Consumption	2429	2429	2379	2304	0	2289
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2430	2430	2380	2305	0	2290

Table 2: Beef and Pork Farm Gate Prices

Date	Rate of exchange ruble/\$	Beef carcass procurement prices, RUR per kg	Pork carcass procurement prices, RUR per kg	Beef carcass procurement prices, US Doll. per kg	Pork carcass procurement prices, US Doll. per kg
30.01.2003	31.80	45.05	43.75	1.41	1.38
28.02.2003	31.57	45.69	43.92	1.44	1.39
30.03.2003	31.39	45.58	43.19	1.45	1.38
30.04.2003	31.10	46.62	42.13	1.49	1.35
30.05.2003	30.66	46.30	42.38	1.50	1.38
30.06.2003	30.34	47.11	41.44	1.55	1.37
30.07.2003	30.24	47.00	41.77	1.55	1.38

Source: Institute for Agricultural Market Studies

Table 3: Beef and Pork Wholesale Prices For Domestic and Imported Products

Date	Exchange rate RUR per \$	Domestic beef wholesale offer price, RUR per kg	Foreign beef wholesale offer price, RUR per kg	Domestic pork wholesale offer price, RUR per kg	Foreign pork wholesale offer price, RUR per kg	Domestic pork wholesale offer price, US Doll per kg	Foreign pork wholesale offer price, US Doll per kg
30.01.2003	31.80	50.17	48.40	48.75	45.50	1.53	1.43
28.02.2003	31.57	51.17	49.95	44.75	46.14	1.42	1.46
30.03.2003	31.38	48.67	48.01	40.37	44.90	1.29	1.43
30.04.2003	31.10	48.00	46.35	40.25	44.62	1.29	1.43
30.05.2003	30.66	48.00	48.52	41.02	48.45	1.34	1.58
30.06.2003	30.34	47.00	49.45	42.51	49.00	1.40	1.61
30.07.2003	30.24	49.00	49.30	42.39	49.11	1.40	1.62

Source: Institute for Agricultural Market Studies

Stocks

Meat stocks were distributed unevenly during the 2003. In March through May, stocks were very large as importers oversupplied the product prior to TRQ introduction. These stocks were mainly held in St. Petersburg and Moscow. In the middle of summer, the processing industry and retail trade began to feel a shortage of certain cuts caused by trade limitation and expects shortages at the end of the year. If quotas are completely exhausted by the end of the 2003, stocks will be slightly lower than normal levels. However, stocks in 2004 would likely be very short because there will not be significant imports outside the TRQs, as was the case in the first quarter of 2003.

Policy

Tariff Rate Quotas (TRQs)

Russia imposed Tariff Rate Quotas on imported frozen beef and pork from April 1 to December 31, 2003. A TRQ for fresh beef was imposed after August 1. The governmental resolution sets the frozen beef quota at 315,000 tons for 2003. Under the TRQ, beef shipments will be subject to a duty of 15 percent of customs value, but no less than 0.15 euros per kilogram, the over-quota duty will be 60 percent, but no less than 0.6 euros/kilo. The pork TRQ was set at 337,500 tons.

Pork under the TRQ will be subject to a duty of 15 percent, but no less than 0.25 euros/kilo, the over-quota duty is 80 percent, but no less than 1.06 euros/kilo. Ten percent of the frozen beef and pork TRQs were set aside for an auction that will take place in September. The chilled beef TRQ amounts to 11,500 tons in 2003. The import duty within the quota is 15 percent, but not less than 0.20 euros per kg and the over-quota duty rate is 60 percent but not less than 0.80 euros per kg.

“Historical Importers”

The beef and pork TRQs are being distributed through a licensing system that, outside of the auctions, allows only historical importers to participate. Importers that were active during 2000-2002 form this group of historical importers and each company’s relative share of imports during that reference period determines its share of the TRQ. For example, if Company X imported two percent of Russian frozen beef imports from 2000-2002, the company will receive two percent of the TRQ licenses. Each company in the historical importer category was registered prior to the start of the TRQ and had to indicate that they were a legal entity and wanted to participate in the TRQ. After that was established and the company was registered by the Russian Government as a participant, the company was required to show a valid contract in order to import a volume that corresponded to the TRQ license.

The entire 90 percent of the TRQ was not distributed to the “historical importers” as some companies later decided they could not or did not want to import their allocation under the TRQ. Thus, some of this volume remains outstanding. The Russian Government plans to redistribute this volume during the last quarter of 2003. Though the calculation of the historical importer’s shares may change, the general principle will remain the same as in the first round of allocations. Final details regarding the redistribution was not available at the time of this report.

Beef and Pork Auction

On July 30, the Ministry of Economic Development and Trade (MEDT) released the preliminary information regarding the auctioning of ten percent of the frozen beef and pork TRQs. The auction will be held in St. Petersburg on September 5. The St. Petersburg commodity exchange was chosen as the organizer of the auction. The auction will take place in an electronic trading format and will use a “Dutch auction system” where there is a system of decreasing bid prices.

Any company that is officially registered in Russia can take part in the auction. Applications and other documentation (such as a participation contract) must be submitted and completed by August 27. Most of the information required is identical to the documentation requirements made on the “historical importers” which gained an automatic share of the TRQ based on their past import activity. The auction fee is 0.8% of the value of the contract.

There will be sixty-three 500-ton lots up for sale for a total auction of 31,500 MT beef. The maximum lot price is 55,000 euros and the minimum lot price is 28,000 euros. There will be thirty-three 1,000-ton lots and one 750-ton lot of swine meat up for sale for a total of 33,750 MT. The maximum lot price is 100,000 euros and the minimum lot price is 50,000 euros.

Future of the TRQs

The future of the TRQs is uncertain. The regulations that authorize these measures technically states that they are to expire at the end of 2003. However, the Russian Government has frequently stated that they will remain for several more years. (As noted in the trade section, these statements led Post to base trade forecasts on the existence of the TRQs for the entirety of 2004.) They have stated that these measures are vital to increase the competitiveness of Russian livestock production over the coming years. However, the Government has stated that if the measures do not work as intended in terms of maintaining stable prices and food supplies, changes will be implemented. A government commission is scheduled to review these measures in the fourth quarter of 2004, with possible changes introduced as a result of the review. MEDT, the Ministry which administers the TRQs, has stated that the TRQs may be adjusted to increase the efficiency of the mechanism and the volume may be expanded to accommodate additional consumption growth, but that the volumes will not be decreased.

FAS/Moscow believes that the most likely changes will affect the TRQ mechanism. The current mechanism is unwieldy due to the necessity of signing a contract prior to the issuance of a license. Removing this requirement and other minor adjustments would simplify the mechanism for both MEDT and importers.

Secondly, if any changes are likely in volume, pork is more likely to see an increase than beef. As mentioned above, Ukraine is not subject to the TRQ. Thus, the beef sector has an important supplier/outlet unaffected by the import limiting measure. All major suppliers of pork are under the TRQ, thus there can be no supply response (by importers) to supply shortages inside Russia. Initial analysis shows a significant decline in available supplies in pork in 2003 and an even worse situation likely in 2004. Therefore, if the TRQ has seriously shorted the market and domestic producers cannot respond quickly, the Government's only response is to increase the TRQ for pork. Lastly, it appears that recent Russian statistics did not accurately record the true levels of imports of pork, especially from Brazil, which brings into question the data used to calculate the pork TRQ volume. By the time that MEDT reviews the TRQs in the fourth quarter, the real situation regarding pork supplies should be known. If the pork market is as short as some trade contacts believe, it is hoped that action can be taken to increase supplies under the TRQ in 2003 and 2004. While producer protection is the main goal of the TRQs, it is believed that the Government will be sensitive to price fluctuations due to the number of low-income consumers dependant on low price sausage and the upcoming election cycle.

Commonwealth of Independent States (CIS) countries plan to adopt unified rules

CIS countries plan to adopt unified rules of veterinary oversight for international shipping of livestock freight. This is one of the most important issues on the CIS agricultural agenda because it would make it possible to establish standard requirements for shipping and increase security against dangerous cargo and animal diseases being brought into CIS countries. It was noted that this is especially important in light of European Union expansion. Participants also discussed the animal health situation in the CIS, the organizational principles for the work of Russia's veterinary service, harmonization of legislation and national approaches to assessing the biological security of genetically modified organisms and feed made from genetically modified products, ways to improve prevention against foot-and-mouth disease and other relevant

international issues. The council decided to set up a working group on harmonization of CIS veterinary legislation.

Marketing

Clearly the most important change in the marketing of meat products in Russia this has been the introduction of the TRQs. While the advantages to Russian producers are clear in terms of reduced competition and higher prices, these measures are not without costs to the market. Consumers will have to pay more for meat products and processors, who rely heavily on imported meat for raw material for sausage production, will have difficulties in obtaining steady supplies throughout the year. As noted in Tables 2 and 3, the price for meats has risen since the imposition of the measures, but has not risen evenly. Imported product, which is often easier for processors to work with in terms of cuts, has risen in price twice as fast as domestic prices. The price of imported pork has risen by nine percent, while the price for domestic pork has risen only five percent. Additionally, imported meat was used for processing due to its low cost compared to domestically produced meat. Recent price data shows that imported meat now demands a premium over domestic meat.

While these differences will probably even out over time, the TRQs introduced several variables in 2003. One of them relates to the rush of product prior to the TRQs and the other is related to the nature of the TRQ mechanism. As most had expected, after the official announcement of the TRQs, there was a rush by exporters to get product in prior to the April 1. Trade data bears this story out and also shows that the initial confusion after the April implementation of the TRQ licensing scheme caused trade to drop off sharply. As exporters became familiar with the system and trade flow started to normalize, trade picked up. However, this initial wave of product created a large surplus of meat on the Russian market. Many experts believe that these large stocks of beef and pork are being brought down and that in the late fall and winter the inability of importers to go around the TRQ will demonstrate very tight supplies, especially for pork. The second main variable for 2003 was the list of historical importers and the TRQ mechanism. Both of these issues caused concern and confusion immediately prior to and after the start of the TRQs. While the trade now seems to understand and find predictability in the administration of the system, the initial shock of implementation was considerable.

The general situation in the market is not expected to change the growth in the market for high quality beef and to a lesser extent, pork. The restaurant and hotel sector (HRI) in the major cities is expected to continue to grow at a steady rate. Moreover, importers gain a premium for using their quota on high-value items. Thus, no reduction in this market is expected. Many importers, who until recently only dealt with meat processors are now trying to develop better contacts and relationships with the HRI sector. These importers have highly sought after import licenses and see the HRI sector as a way to maximize the value of the license and cut out some of the middlemen that help them in supplying the big processors.

Prospects for U.S. Meat Products in Russia

Clearly the TRQs have made the lives of U.S. exporters of meat products to Russia more difficult. US exporters will find that customers are thinking more strategically due to the constraints that the TRQs entail. For example, an importer has to think about how fast to use the licenses, which products will maximize the license value, and where to source product when that volume is gone.

Unfortunately, U.S. exports play a small role on both the pork and beef markets in Russia. Exporters have been recently trying to broaden the Russian understanding of some specialty cuts and other competitive products. Importers may be less likely to try new cuts of meat due to the TRQs and the licensing situation.

While closing some doors to U.S. exports, the TRQs have opened others. The most important of these is offals. U.S. exports of offals now have a much stronger competitive position under the current situation. Offals are not under the TRQ and have no volume limitations. As prices are rising and supply becomes more tight, meat processors are going to be looking to offals as a replacement meat that can be imported consistently and at low cost. Due to the high volume of imports of pork and beef prior to the quota, Russian offal imports have been down thus far in 2003. However, imports are expected to rebound in the second half of 2003 and be strong in 2004. The most attractive meat in this category is beef livers. The U.S. has also had a strong presence in the pork liver and beef heart market.

Even specialty meats, such as bison, have a niche in the large urban markets and command a significant premium. Though these products are under the TRQ, their high-value nature make them attractive to importers looking to maximize the value of their allocation. Alternatively, processed meats are more attractive in the current environment as the difference in tariffs between raw meat products and processed products decreases. Other products that can now be more attractive are specialty high-value meats and processed meat products (tariff code 16).

Additional Tables

Table 4: Russian Beef Imports, 2000-2003, Quantity (MT)

Quantity (MT)	2000	2001	2002	2003					YTD
				Jan.	Feb.	Mar	Apr	May	
0202 BEEF, FROZEN	270 714	420 844	469 141	24 855	29 410	58 596	19 986	22 583	155 430
020230 CUTS BONELESS	104 395	232 297	325 928	17 579	23 585	52 045	12 551	15 688	121 448
020210 CARCASS, WHOLE/HALF	121 714	73 265	96 397	5 022	5 302	5 215	6 982	6 737	29 258
020220 CUTS WITH BONE	44 601	115 283	46 816	2 254	523	1 336	453	158	4 725
0201 BEEF FRESH, CHILLED	11 445	34 671	35 459	898	973	1 445	85	199	3 600
020130 CUTS BONELESS	88	12 094	34 212	898	973	1 444	43	173	3 531
020120 CUTS WITH BONE	11 321	22 525	1 229	0	0	0	42	26	68
020110 CARCASS, WHOLE/HALF	40	53	18	0	0	0	0	0	0

Source: World Trade Atlas

Table 5: Beef Market Share, Percent of Total By Top Five Exporting Countries

0202 Mkt. Share (% of Qty.)	2000	2001	2002	Jan.	Feb.	Mar	Apr	May	2003 YTD
1 Ukraine	50.0%	21.4%	27.4%	29.3%	27.9%	14.8%	54.6%	50.1%	29.8%
2 Ireland	2.9%	7.2%	13.2%	12.3%	13.6%	9.6%	6.6%	13.0%	10.9%
3 Brazil	0.0%	0.5%	5.8%	24.2%	12.2%	30.9%	18.7%	9.0%	21.5%
4 Spain	2.3%	6.9%	6.8%	5.3%	9.2%	9.4%	4.1%	8.8%	7.9%
5 Germany	13.9%	39.9%	16.2%	7.5%	12.5%	11.3%	4.3%	6.8%	9.3%
0201									
1 Germany	32.6%	79.8%	90.8%	95.6%	93.0%	99.2%	22.5%	75.5%	93.5%
2 Ukraine	0.2%	0.0%	1.5%	0.0%	0.0%	0.0%	49.5%	13.1%	1.9%
3 Country Unknown	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	22.5%	9.9%	1.1%
4 Australia	0.0%	0.0%	0.1%	0.4%	0.2%	0.5%	2.2%	1.2%	0.5%
5 United States	0.0%	0.0%	0.0%	0.2%	0.2%	0.3%	2.7%	0.4%	0.3%

Source: World Trade Atlas, market share calculated by Post.

Table 6: Russian Pork Imports, 2000-2003, Quantity (MT)

HSC	Product	2000	2001	2002	2003					
					Jan.	Feb.	Mar	Apr	May	YTD
0203	PORK,FRESH OR FROZEN	212 759	367 998	602 010	43 909	40 898	81 117	16 897	26 361	209 182
020321	FROZEN CARCASSES	87 372	183 357	301 929	18 563	19 624	39 518	7 250	13 002	97 956
020329	FROZEN CUT BONELESS	72 314	138 028	238 026	22 329	17 738	35 385	8 604	11 127	95 182
020311	FRESH CARCASSES	46 159	41 277	55 756	2 906	3 327	4 366	298	1 153	12 049
020322	FROZEN CUTS, BONE-IN	5 563	3 282	4 856	10	59	1 689	711	858	3 327
020319	FRESH CUTS BONELESS	953	1 694	1 358	102	150	160	35	222	668
020312	FRESH CUTS, BONELESS	398	359	85	0	0	0	0	0	0

Source: World Trade Atlas

Table 7: Pork Market Share, Percent of Total By Top Ten Exporting Countries

0203 Mkt. Share	2000	2001	2002	Jan.	Feb.	Mar	Apr	May	YTD 2003
1 Brazil	6.8%	38.3%	58.1%	68.4%	53.3%	45.2%	35.2%	64.8%	53.3%
2 Poland	9.6%	6.0%	2.8%	7.7%	13.1%	17.2%	18.2%	11.5%	13.8%
3 Ukraine	5.7%	0.4%	0.2%	0.7%	2.0%	1.3%	7.3%	4.4%	2.2%
4 Germany	10.5%	7.0%	4.9%	1.9%	3.0%	4.4%	3.3%	4.0%	3.4%
5 China	0.7%	2.8%	11.2%	7.0%	9.7%	13.4%	26.7%	3.3%	11.2%
6 Finland	0.8%	0.9%	1.3%	0.8%	2.0%	1.9%	1.8%	2.9%	1.8%
7 Denmark	16.3%	15.1%	6.9%	4.0%	5.3%	5.9%	0.1%	2.9%	4.5%
8 Canada	1.3%	6.7%	4.4%	5.2%	5.2%	3.8%	1.6%	1.4%	3.9%
9 France	12.5%	4.3%	2.7%	1.5%	1.1%	1.9%	0.1%	1.0%	1.4%
10 Spain	3.3%	0.9%	0.3%	0.1%	0.1%	1.1%	0.7%	0.8%	0.6%

Source: World Trade Atlas, market share calculated by Post.

Table 8: Historic Average Farm Gate Prices for Meat (live weight, rubles per MT)

	1996	1997	1998	1999	2000	2001
Cattle	3287	3972	4933	11729	14142	19775
Swine	5674	7272	8769	16247	20152	31310
Poultry	5636	7111	8694	16507	20481	26868

Source: Russian State Statistic Committee

Table 9: Historic Average Retail Prices for Meat (rubles per kilo, end of the year)

	1996	1997	1998	1999	2000	2001
Beef	14.14	15.79	30.04	42.01	52.72	70.33
Pork	16.81	19.06	33.99	43.37	58.45	79.22
Poultry	13.82	16.06	30.74	39.28	48.8	56.92

Source: Russian State Statistic Committee

Table 10: The Most Efficient Swine Farms of Russia, Average of 1998-2002

Farm	Number of swine	Production cost, rubles per 100 kilo	Farm meat price, rubles per 100 kilo	Profitability of sold meat,% *
OAO" Omskiy becon", Omsk oblast	211281	1762	2857	62.1
SVKh"Permskiy"	128993	2140	2299	7.4
ZAO "Volzhs koye", Tver obl.	67057	2235	2609	16.7
KPH, "Frunze", Belgorod obl.	30498	1074	2060	91.7
ZAO SK "Industrial'niy" Krasnodar	67001	1687	2149	27.4
ZAO"Krasnodonskoye", Volgograd	55803	1707	2095	22.7
SkhPK "Usolskii pork farm", Irkutsk	63515	2019	2289	13.4
State farm "Zvenigovskiy", Mariy-El, Rep.,	19618	1685	2570	52.5
State farm "Roshchinskiy", Bashkortostan	38552	2088	2259	8.2
Pedigree farm"Yubileyniy",Tumen	44833	1275	2301	80.4
OAO"Lazarevskoye", Tula	39560	2262	2628	16.2
Zao"Severniy Klyuch", Samara	23421	1526	2205	44.5
MKhP"Nickolaevskoye", Voronezh	17532	1878	2385	27
ZAO"Botovo", Vologda	30092	2466	2602	5.5
SPK "Nadeevo", Vologda	32969	2399	2486	3.6

Source: Krestiyanskiye Vedomosti, January 2002

* Ratio between profits from sold meat and average number of heads